

Unknown

From: Messmore, William [william.messmore@lehman.com]
Sent: Wednesday, April 02, 2008 9:03 AM
To: Montgomerie, Rick
Cc: Vaughan, Charlie; O'Brien, David
Subject: RE: Lehman Re Questions

Hi Rick - see below in caps. This language should also apply to Brit too - let me know if you need anything else

-----Original Message-----

From: Montgomerie, Rick
Sent: 19 March 2008 15:29
To: 'bhoughto@lehman.com'
Cc: Vaughan, Charlie
Subject: Lehman Re Questions

Brett,

We had a meeting with Watkins (owned by Munich Re). The purpose of the meeting was to review the security. They had a security consultant present as well.

The queries that they had are as follows:

Does Lehman legally own the collateral account? What rights do Pulsar have and or any other parts of Lehman Brothers have?

- YES. LEHMAN HAS A FIRST PRIORITY PERFECTED SECURITY INTEREST IN THE COLLATERAL UNDER NEW YORK UCC, AND THAT COLLATERAL IS SEGREGATED AT LEHMAN RE TO SECURE THE OBLIGATIONS OF THE COUNTERPARTY (PULSAR). COLLATERAL IS EARMARKED FOR DISCHARGING OUTSTANDING OBLIGATIONS OF PULSAR TO LEHMAN ACCORDING TO A DETAILED COUNTERPARTY CONTRACT.

How is a claim paid and how does the collateral account get replenished for risks that have a reinstatement and also for risks that have no reinstatement?

- CLAIMS ARE PAID OUT OF LEHMAN RE. THE COLLATERAL POSTING AMOUNT IS CALCULATED ON A DAILY BASIS BASED ON TOTAL CURRENT EXPOSURE OF THE PULSAR / LEHMAN RE VEHICLE (EACH CONTRACT IS AGGREGATED, AND EVALUATED FOR ITS CURRENT EXPOSURE AMOUNT).

Could you confirm that Lehman Re have no sub prime exposures?

- CONFIRMED THAT THERE IS NO SUB-PRIME IN THE PULSAR VEHICLE.

How does the cash collateral and the exposure get recorded in Lehman's accounts?

- LEHMAN BROS INC HAS A DEDICATED COLLATERAL MANAGEMENT TEAM THAT HANDLES THE CASH. EXPOSURES ARE MONITORED BY LEHMAN RE, AND COLLATERAL REQUESTS / PAYMENTS ARE CONVEYED TO PULSAR ON A MONTHLY BASIS. HOWEVER, IN THE CASE OF AN EVENT, OR FOR EXAMPLE, AN INTRA MONTH EXPOSURE CHANGE, LEHMAN RE CAN REQUEST COLLATERAL AT ANY TIME.

****ALSO - IMPORTANT TO NOTE ABOUT THE SUPPORT OF PARENT COMPANY LEHMAN BROS INC:****

LEHMAN BROTHERS INC HAS ENTERED INTO A NET WORTH MAINTENANCE AGREEMENT WITH LEHMAN RE. THIS AGREEMENT COMMITS THE HOLDING COMPANY TO PROVIDE CAPITAL AS NEEDED TO ENSURE THAT LEHMAN RE CONTINUES TO HAVE SUFFICIENT NET WORTH TO COVER THE BERMUDA MONETARY AUTHORITY'S MINIMUM SOLVENCY MARGIN REQUIREMENTS, AND TO PROVIDE LIQUIDITY AS NEEDED TO PAY ITS CLAIMS.

THIS CREDIT SUPPORT IS IN ADDITION TO THE ALREADY STRONG STANDALONE FINANCIAL STRENGTH

3/6/2009

OF LEHMAN RE, AS INDICATED BY ITS A+ (STABLE) RATING FROM AM BEST.

Many thanks,
Rick

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